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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Small Business Week . . .

Last week, the nation honored its entrepreneurial spirit with the celebration of Small Business Week. For seven days, attention was given to the establishments that dominate our economy—and our lives—every day of the year. The United States is home to about 14 million small business enterprises, comprising 97 percent of all American companies. Ten million are sole proprietorships, three million are corporations, and one million, partnerships.

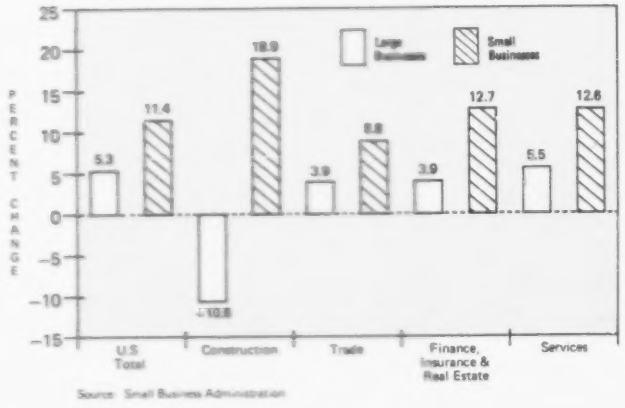
Small companies are deeply rooted in their local communities and neighborhoods and provide entry-level jobs for teenagers, women, minorities and immigrants. In fact, small businesses have become the main driving force behind the nation's economic growth. According to statistics issued by the Small Business Administration, small businesses employ almost half of the nation's private nonfarm workers and generate approximately 38 percent of the gross national product.

The effects of small businesses have not always been so important. Between 1950 and 1970, big companies or government created three out of every four new domestic jobs. However, from 1970 to 1980, small businesses provided most of the 20 million new jobs generated. What is more, this trend has accelerated during the 1980s. Even during 1981 and 1982, when the worst recession in decades caused massive layoffs in the steel, auto and other basic industries, small businesses posted a relatively strong performance, demonstrating their ability to adapt and grow in times of economic adversity. According to the Small Business Administration, between 1980 and 1982 small enterprises with under 20 employees generated over 2.6 million new jobs, more than offsetting the 1.7 million positions lost by larger businesses—a net gain of 982,000 new jobs.

. . . Honors America's Entrepreneurs . . .

The current economic expansion has created opportunities for employment growth for small and large companies alike, but large businesses have not kept up with the employment gains of small companies. As the chart shows, in the two years between October, 1982 and October, 1984, small businesses increased their total employment by 11.4 percent, while large companies increased their payrolls by only 5.3 percent. In the construction industry, small firms posted employment gains of almost 19 percent during this period, compared with a 10.6 percent loss in the number of workers in large firms. Small businesses in the financial sector increased their employment by 12.7 percent, while large institutions added only 3.9 percent to their work force. So, too, small businesses in the service sector added 12.6 percent more jobs during this recovery, while their large counterparts posted an employment gain of only 5.5 percent.

PERCENT CHANGE IN EMPLOYMENT
IN SMALL VS. LARGE BUSINESSES
OF SELECTED INDUSTRIES (OCT. 1984 VS. OCT. 1982)



Source: Small Business Administration

The economic picture that brightened beginning in late 1982 motivated a record number of people to start their own companies. Indeed, an entrepreneurial boom of unprecedented dimensions took place during this business recovery. Estimates by Dun & Bradstreet indicate that business starts (nearly all of them small companies) reached 100,900 in 1983—an 11.1 percent increase over the number of business starts recorded the year before, and well above the previous record of 92,100 in 1981. In 1984, new business starts grew an additional 1.4 percent to a new all-time high of 102,300.

New companies represent a wide spectrum of

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business activities. Perhaps to the surprise of many, high-technology starts comprise only a fraction of total new business formations. Service firms are the fastest growing, with particularly high rates of formation in such areas as financial services, fast foods, legal services, insurance, physical fitness and air transportation. Thus, small businesses are fully participating in the transformation of the U.S. from a goods-producing to an information-based and service-oriented economy. In 1982, according to the Small Business Administration, service firms accounted for 23.4 percent of all small businesses, compared with 19.1 percent in 1976. By contrast, the share of retail trade firms declined during the same period to 29.1 percent in 1982 from 34.4 percent in 1976.

Self-employed workers, who comprise little more than eight percent of the work force nationally, have made a healthy contribution to the United States economic recovery. In 1983, this group increased by 6.6 percent—almost twice as fast as the 3.7 percent rise in wage and salary employment. Although in 1984 the number of people who decided to become their own boss grew by only 2.8 percent, this group still did better financially than those who worked for others. Small-business income, as measured by the revenues of proprietors and partnerships, grew 17 percent in 1984, about twice as fast as the nine percent rise in

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/8/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	181.295	+ .539	+17.430
Loans to Depository Inst.	.634	– .638	– .464
Float	.743	+ .623	– .149
Total Reserve Bank Credit	195.663	+ .604	+20.253
Treasury Deposits with Federal Reserve Banks	12.557	– 3.906	+ 6.906
Currency in Circulation	181.965	+ 1.488	+10.492
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	117.511	+ 1.979	+ 3.416
	5/8/85		
Member Bank Reserves:			
Total Reserves Held	40.563	– 1.333	+ 3.695
Excess (Deficiency)	.807	– .075	+ .215
Net Free Reserves	+ .250	– .240	+ .661
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (4/29/85)	575.2	+ 8.8‡	+ 6.5‡
M2 (March '85)	2,429.1	+ 9.8	+ 9.0
M3 (March '85)	3,056.0	+ 8.1	+ 10.5
Domestic Nonfinancial Debt (4th Q'84)	5,970.8	+ 14.4	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 5/10/85	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.70%	7.86%	8.03%
* Federal Agencies	8.05	8.40	8.80
* Project Notes—Taxfree (46% Taxable Equivalent)	9.26	9.44	9.54
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.13	8.25	8.90

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.00%	Jun.	7.95%
15- 29 days	8.00	Jul.	7.97
30- 59 days	8.00	Aug.	8.00
60- 89 days	8.00	Sep.	8.00
90-179 days	8.03	Oct.	8.02
180-239 days	8.05	Nov.	8.00
240-270 days	8.05		

‡Industrial Paper—Prime		†Federal Funds Effective Rate	8.06%
30- 89 days	8.00%		
90-120 days	8.00		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'85	$ 3,820	$ 3,759	$ 3,553
Gross National Product (1972 Dollars)*	1st Q'85	$ 1,668	$ 1,662	$ 1,611
Percent Change, Annual Rate	1st Q'85	1.3	4.3	10.1
Change in Consumer Prices*	Mar '85	6.0%	3.6%	3.6%
Change in Producer Prices*	Apr '85n	3.6%	2.4%	0.0%
Civilian Employment (Thousands of Persons)†	Apr '85	106,945	107,119	104,402
Unemployment as % of Civilian Labor Force†	Apr '85	7.3%	7.3%	7.8%
Personal Income*	Mar '85	$ 3,156	$ 3,140	$ 2,941
Leading Indicators Composite Index (1967=100)†	Mar '85	167.1	167.5	167.2
Industrial Production Index (1967=100) †	Mar '85	165.4	164.9	160.8
Net Change in Consumer Installment Credit †	Feb '85	$ 10.37	$ 7.22	$ 6.19
U.S. Merchandise Trade Balance †	Mar '85	–$ 11.05	–$ 11.45	–$ 10.27
Plant and Equipment Expenditures*	2nd Q'85	$388.86(a)	$380.05(a)	$348.34
Private Housing Starts (Thousands of Units)*	Mar '85	1,895	1,631	1,700
New Construction Expenditures*	Mar '85	$ 324.2	$ 323.8	$ 309.7
Total Business Inventories †	Feb '85	$ 576.9	$ 574.8	$ 532.1r
Total Business Sales †	Feb '85	$ 419.2	$ 418.3	$ 402.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

wage and salary income for the nation as a whole.

. . . And Innovative Spirit

Small enterprises have traditionally been the major innovators in American business. According to the Small Business Administration, they have introduced 2½ times as many new products as large companies and launched new industries ranging from semiconductors to gene splicing. Even smokestack industries are dependent on entrepreneurial innovation for the streamlining they urgently need to become more competitive. Such labor-saving devices as microprocessors and industrial robots developed by small high-technology firms are crucial in the current efforts to modernize auto assembly plants and steel mills. Moreover, small businesses are a challenge to older, established companies, forcing them to improve their productivity in order to compete. In recognition of this, the Federal Small Business Innovation and Research Program last year made 750 awards to small firms amounting to some $45 million.

From the neighborhood mom-and-pop stores to modern shopping malls, from cottage industries to industrial parks, from the main streets of small towns to fashionable avenues of big cities, small businesses represent the essence of the American economic system: private enterprise, individual initiative, risk-taking and free competition.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (4/24/85)	156,636	+ 997	+14,447
New York City (5/1/85)	33,533	+ 92	+ 4,449
Commercial Paper (5/1/85)	256,285	+ 1,754	+46,129

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/24/85)	253,744	– 1,036	+ 16,699
New York City (5/1/85)	62,063	+ 823	– 192

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/24/85)	667,720	– 2,526	+ 63,541
New York City (5/1/85)	149,229	+ 4,477	+ 12,734

Financial Markets

	Friday 5/10/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.98%	+ .08	– 2.32
180-Day Bills†	8.31	+ .01	– 2.59
Longest Bills†	8.71	+ .01	– 2.84
Recent Issues:			
9¾s 4/30/87	9.60	– .10	
11¼s 3/31/89	10.28	– .17	
11¼s 5/15/95 (When Issued)	11.03	NA	
11¼s 2/15/15	11.18	– .12	
Municipals:			
Bond Buyer–20 Bond Index* (5/9/85)	9.11%	– .26	– 1.08
Blue List Total ($ Million)	$1,679	+ $ 92	+ $194
30-Day Visible Supply ($ Million)	$2,925	– $913	– $132
Total	$4,604	– $821	+ $ 62
Corporates:			
Moody's Aa Composite (5/9/85)	12.59%	– .02	– 1.37
30-Day Visible Supply ($ Million)	$ 635	– $770	– $1,130
Stocks:			
Dow-Jones Averages:			
Industrials	1,274.18	+ 26.94	– 242.96
Transportation	617.03	+ 32.55	+ 114.97
Utilities	159.73	+ 4.78	+ 30.44
65 Stocks	523.45	+ 16.33	+ 69.29
Standard and Poor's 500 Stocks	184.28	+ 4.20	+ 25.79
N.Y.S.E. Composite Index	106.64	+ 2.46	+ 15.41
N.Y.S.E. Avg. Daily Vol. for Week (000's)	107,880	+ 6,834	+ 8,526

* 46% Taxable equivalent 16.87%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/10/85	Week Ago
Overnight	8.06%	8.13%
1 month	8.06	8.31
3 month	8.25	8.50
6 month	8.56	8.80
1 year	9.19	9.31
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.10%	11.25%
Long Term (7 to 15 yrs.)	11.30	11.40

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/10/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01589	62.9250
Canada	.7246	1.3800
Denmark	.08848	11.3020
France	.1049	9.5350
Germany	.3197	3.1280
Italy	.0005016	1993.50
Japan	.003963	252.33
Mexico	.004049	247.00
Netherlands	.2832	3.5315
Switzerland	.3794	2.6355
U.K.	1.2315	.8120

Great golf! Great cause! Great price!

The Manufacturers Hanover Westchester Classic will be held at the Westchester Country Club in Harrison, N.Y., June 3-9, 1985.

- Tickets for the Sports House and Grounds for 7 days—$60. Grounds only—$45. Monday and Tuesday (practice rounds)—$5 or $3 per day. Wednesday (the Pro-Am)—$10 or $6. Thursday, Friday, Saturday, Sunday—$18 or $15 each day.
- Scott Simpson, defending champion and other top pros from the PGA Tour, will compete for $500,000 in prize money.
- Proceeds help support the following area hospitals: United, Lawrence Auxiliary, New Rochelle, Northern Westchester, Phelps Memorial, St. Agnes, St. John's, St. Joseph's, St. Vincent's, Blythedale Children's, Greenwich, Mount Vernon, White Plains, Yonkers General.
- Tickets on sale at all these hospitals through June 2, thereafter at the gate. To charge with MasterCard or VISA call 212-808-8513.
- For more information call (914) 967-5356.

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